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SIPDIS
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STATE FOR WHA/BSC
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E.O. 12958: N/A
TAGS: ELAB ECON EIND EFIN PGOV PHUM PINR BR
SUBJECT: LAY OFFS LEAVE THE GOB AND UNIONS PLAYING CATCH UP

SENSITIVE BUT UNCLASIFIED--PROTECT ACCORDINGLY

¶1. (SBU) Summary: After years of economic growth and relative labor calm, a sudden spate of layoffs and rumors of further cuts seem to have caught both Brazilian labor unions and the government off-guard. The swift deterioration in the labor market has led to public demonstrations and much finger-pointing. While politicians blame the intractability of the Central Bank and "corporate greed", labor leaders wonder if the crisis is being deliberately overblown by business to extract concessions from labor. While local unions make concessions to save members' jobs, the Brazilian government and major national unions have yet to settle on a coordinated response to workers' plight. Without a more concerted effort to identify solutions that satisfy labor and employer needs, a sustained economic downturn could bring new labor headaches for President Lula and for his Worker Party (closely aligned with labor) as it heads toward the 2010 presidential election. End Summary.

DECEMBER ECONOMIC DATA IS "THE WORST"
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¶2. (U) Recently released November and December economic data demonstrate the effects of the financial crisis on certain key sectors of the Brazilian economy. The National Confederation of Industry (CNI) released November statistics that showed industrial capacity utilization had dropped to its lowest level since February 2007 (81.6 percent). During the week of January 19, the Ministry of Labor said that the country had lost 650,000 jobs in December. (The typical seasonal decline is around 300,000.) Carlos Lupi, Minister of Labor, asserted that, "This is the worst December in history...."

¶3. (U) The auto, metalworkers, mining, construction, service and agricultural sectors registered the highest numbers of layoffs. Specifically, the manufacturing sector (which includes the automakers, metal and steel workers) accounted for 41.7 percent of the jobs lost while agriculture (20.5 percent), services (17.9 percent,) and construction (12.6 percent) accounted for the bulk of the remainder. In addition to layoffs, some plants are placing workers on furlough, extending "collective vacations," requesting salary and work week reductions, and "temporarily" suspending selected contracts. (Note: Unemployment is traditionally a lagging indicator and even with the very large and public number of layoffs, official unemployment for the major metropolitan regions remains at 6.8 percent. End Note.)

LAYOFFS GALVANIZE POLITICIANS, INDUSTRY AND LABOR LEADERS
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¶4. (U) The layoffs and rumors of more to come brought representatives from labor, industry and government together for a series of high-level meetings. Guido Mantega, Secretary of the Treasury, met with business leaders; President Luiz Inacio Lula da Silva scheduled union talks; the major unions met with each other to develop a protest strategy; and the Federation of Industry for the State of Sao Paulo (FIESP) began negotiations with Union Force (FS-Forca Sindical). Despite all the dialogues, views diverge on how to manage this crisis.

GOVERNMENT OFFICIALS FAR FROM UNIFIED ON PLAN OF ACTION
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¶5. (U) Carlos Lupi, Minister of Labor, took a hard stance against layoffs. In press interviews, Lupi noted that many of the industries that laid off workers benefitted from government tax breaks, federal loan programs and other types of assistance. He said that these industries should provide some "compensation" to the GOB by maintaining employment. Lupi wants to tie government assistance programs under his purview (the Temporary Service Guarantee Fund or "FGTS" and the Workers Aid Fund "FAT") to employment guarantees for workers.
¶6. (U) Mantega supports Lupi in his call to tie government help to job creation/preservation. On January 22, Mantega announced a R$100 billion (US$ 43.5 billion) infusion to the National Economic and Social Development Bank (BNDS), but stated that any new loans would come with employment requirements for contractors. President Lula

has remained quiet on the issue of mandating employment and is said to be "reviewing various proposals." (Comment: Press articles indicate that Lula remains committed to providing credit to industries and companies in need without any employment requirements, although he has publicly urged companies not to lay off employees. End Comment.)
¶7. (U) Brazil's Central Bank stands at the center of the debate as to how to respond to the financial crisis. Leaders across the political, business and labor spectrum routinely criticize Henrique Meirelles, President of the Central Bank, for keeping interest rates too high. Inflation fears have kept the Selic (the benchmark interest rate) at 13.75 percent since September 2007. With the tumbling economy, mass protests took place, and on January 21 unions marched in various cities to demand rate cuts. While denying that it bowed to political pressure, the Monetary Policy Committee (Copom) authorized a one percent cut in interest rates on January
¶21. Although the move was lauded by virtually all sectors, many business and union leaders continue to argue for further reductions.
UNIONS AT ODDS WITH BIG BUSINESS AND EACH OTHER
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¶8. (SBU) Despite meetings between the national labor unions, there is little consensus among the major players. Union Force (FS) is in negotiations with FIESP and hopes to establish a non-binding umbrella agreement that would set out parameters for labor and industry to cooperate in their response to hard times. (Note: FS is the second largest labor organization in Brazil and is widely considered to be more moderate than its rivals. End Note.) Because it counts among its membership the bulk of the metalworkers unions, many of its members have suffered layoffs. In a January 22 meeting, Union Force General Secretary, Joao Carlos Goncalves (commonly known as "Juruna"), told Poloff that his union will negotiate with FIESP as long as workers' rights are protected. Union Force is the only union that openly states its willingness to consider salary or work week reductions in exchange for employment stability. Juruna said that "in certain sectors - the ones that are hardest hit - this [wage/hours concessions] may be acceptable. We want to avoid having other industries take advantage of the situation and pressure workers for concessions when their sectors are not in trouble."

¶9. (SBU) The Central Worker's Union (CUT) is standing firm against

layoffs or salary reductions. CUT has the largest membership of all the labor syndicates with over 3,000 member unions and seven million members. CUT is commonly associated with President Lula's Worker's Party (PT) and a large percentage of its members come from the public sector or from white collar labor unions. Many believe that because the public sector has not suffered many lay offs, CUT can afford to take a hard line. In a January 22 meeting, CUT General Secretary, Quintano Severo, told Poloff that CUT proposes moving to a system where companies can "bank hours" over the course of a year. Under the CUT plan, workers would be expected to work a set number of hours over the course of a year but within that year, companies could reduce hours in some weeks and raise hours in others, depending on the level of economic activity. Salaries would be kept flat regardless of hours worked. While this would not reduce salary costs, it would allow industries to run fewer shifts, close one day a week or idle production lines for set times, thereby saving on electricity and other expenses and reducing the risk of product over-supply.

¶10. (SBU) CUT favors government tax breaks to stimulate demand. Severo cited the recent government reduction of the Tax on Industrial Products (IPI) for automobile sales. Minister Lupi claims that preliminary January sales data shows an improvement in auto sales because of the IPI reduction and lamented publicly that "if only auto manufacturers had waited fifteen or twenty more days, they might not have needed to lay off workers." CUT also advocates bringing more industry representatives to the bargaining table. Severo claimed that FIESP only represents large companies, but that the bulk of Brazilian employment comes from small and mid-sized companies. He said that CUT is already in negotiations with the Micro and Small Industry Syndicate (SIMPI). CUT hopes to map out an agreement that preserves salary and employment with SIMPI and then take it to the government.

IN THE MIDST OF THE DEBATE, 130 COMPANIES CUT THEIR OWN DEALS
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¶11. (U) Since the beginning of the financial crises, 130 companies and nine local unions have negotiated their own deals for wage/hours concessions without waiting for agreement from the national syndicates or business representatives. In the Sao Paulo metropolitan area, 92 companies have negotiated such contracts with the metalworkers union. Sao Paulo state accounts for over 40 per cent of Brazil's industrial production and labor accords in this region can have far-reaching implications for the rest of the country. Agreements include various concessions by the unions including the FS and CUT elements of "hour banks" and work week and salary cuts.

¶12. (SBU) When Poloff asked FS leaders Juruna and Severo for their views on the individual deals, the responses were mixed. While Severo (CUT) avoided the question and implied that these local unions were being taken advantage of by big business, Juruna (FS) was more pragmatic. He conceded that the local unions had to "do what they needed to do" and stated that FS hoped to use these individual deals as a barometer for the types of concessions the national leadership might offer in its discussions with FIESP. He did insist, however, that FIESP and other pro-business interests could be using the media to create an artificial "climate of panic" to extract concessions from labor. He even pointed to recently released unemployment statistics as proof that the economic crisis was not severe. (Note: He did not seem to consider that unemployment is a lagging indicator. End Note.)

ARTIFICAL "CLIMATE OF PANIC" OR THE TIP OF THE ICEBERG?
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¶13. (SBU) COMMENT: It is doubtful that the recently released economic data tells the full story of the labor market in Brazil. As nearly 50 per cent of Brazil's 100 million strong labor force works in the informal economy, the recently released IBGE statistics only capture part of the story. Due to the fact that Brazil's labor laws make it difficult and expensive to lay off formally employed workers, it is unclear whether, in this economic climate, informal

workers have so far been relatively unaffected (because they are cheaper to employ and generally work outside of export industries like autos) or have born the brunt of the costs (because they are more vulnerable).

¶14. (SBU) While President Lula publicly repeats his desire to create employment, he has released few concrete plans. He remains popular and is the beneficiary of widespread support from labor. That said, this is the first large scale economic crisis of Lula's presidency and, while labor clamors for the GOB to do more, they have so far hesitated in public criticism of President Lula.

¶15. (SBU) The GOB, labor, and industry remain divided on how to respond to the financial crisis. President Lula has had relatively few problems maintaining consensus on economic and wage policy in times when a constantly rising tide has lifted all boats. If, as we expect, Brazil is at the beginning of a period of slower economic growth, the relatively tranquil labor sector could become a growing thorn in Lula's side, testing both his popularity and his political skills, with clear implications for the prospects of his chosen successor and the likely Worker Party presidential candidate, Dilma Rousseff, in the 2010 elections. END COMMENT.

¶16. (U) This cable has been cleared by the Embassy in Brasilia.

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